



# San Diego City Attorney **MICHAEL J. AGUIRRE**

## NEWS RELEASE

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### **CITY ATTORNEY URGES ELIMINATION OF DROP RETIREMENT PROGRAM**

***LEGAL OPINION DOCUMENTS IT IS COSTLY AND VIOLATES THE CITY'S ORDINANCE***

**San Diego, CA:** A retirement program intended to encourage the retention of veteran City employees and save the City money is a financial burden and should be immediately eliminated according to San Diego City Attorney Michael Aguirre. The latest cost analysis reveals that to date the 9-year-old Deferred Retirement Option Plan (DROP) has cost the City over \$400 million. Yet, the City's own 1997 ordinance required that DROP could only continue if cost studies indicated it was cost-neutral to the City.

In a legal memorandum issued today to the Mayor and City Council, City Attorney Michael Aguirre documents that DROP, which was created in 1997 on a three-year trial basis, is not cost-neutral and Retirement and City officials knew it when the City Council amended the ordinance in 2002 to make it permanent at the insistence of labor unions.

"DROP should never have been extended by the City Council because it required a cost analysis study before any action to make it permanent could be taken," said City Attorney Michael Aguirre. "At least three cost study reports since 1999 revealed it would financially hurt the City."

In 2002, the City Council amended the ordinance to make DROP permanent despite the fact that on June 17, 1999 the San Diego City Employees' Retirement System's (SDCERS) actuary, Rick Roeder, authored a detailed cost analysis of DROP. The report stated that "the City's DROP program had resulted in a cost of \$3,686,800 to the City since the inception of the DROP program on April 1, 1997 through and including June 30, 1998, a little over a year after DROP was implemented." Two more reports affirming that DROP was not cost-neutral were issued in 2004 by SDCERS outside consultant, and in 2007 the City's actuarial consultant, Joseph Esuchanko, issued the latest report.

Eligible participants in the DROP program are City employees who meet both age and service requirements for retirement. These employees remain on the City's payroll for up to an additional five years. During this time, retirement payments are made to their DROP accounts which earn eight percent interest compounded annually regardless of the rate of return on the City's retirement fund. Last summer, the City Council enacted an ordinance which eliminates DROP for all City employees hired after July 2005.

To view the legal opinion, visit [www.sandiegocityattorney.org](http://www.sandiegocityattorney.org), Significant Reports and Legal Documents.

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